



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Mandated Compliance Review

Justice Courts Accounting Review

For the Following Courts:

East Mesa
Hassayampa
Ironwood Justice
Ironwood Municipal
Lake Pleasant

Manistee
North Mesa
North Valley
West Mesa

July ■ 2007

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The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

***The mission of Maricopa County is to provide
regional leadership and fiscally responsible,
necessary public services so that residents can
enjoy living in a healthy and safe community.***

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Trisa Cole, Associate Auditor
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Copies of the Internal Auditor's reports are available by request.
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Many of our reports can be found in electronic format at:
www.maricopa.gov/internal_audit



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July 12, 2007

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
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Mary Rose Wilcox, Supervisor, District V

We have completed our review of eight Maricopa County Justice Courts and one Municipal Court for compliance with applicable Minimum Accounting Standards (MAS). These reviews were performed in accordance with our board-approved, annual audit plan, to satisfy requirements set by the Supreme Court of Arizona, Administrative Office of the Courts (AOC).

This report summarizes our findings. Detailed findings were reported separately on May 18, 2007, in individual reports to the nine courts selected for review. These reports were provided to:

- The AOC
- The Respective Justices of the Peace and their Court Managers
- The Presiding Judge
- The Judicial Branch Administrator
- Justice Court Services

These detailed reports are available from the AOC.

We would like to thank the Justices of the Peace, the courts' staff, and Justice Court Services for their excellent cooperation. If you have any questions or wish to discuss the information presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

C: Marcus Reinkensmeyer, Judicial Branch Administrator
Barbara Mundell, Presiding Judge, Trial Courts

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Executive Summary

We performed the agreed-upon procedures enumerated in the Minimum Accounting Standards (MAS) Compliance Checklist for Arizona Courts at eight Justice Courts and one Municipal Court. We performed these procedures to assist the Supreme Court of Arizona, Administrative Office of the Courts, in evaluating the courts' assertion that an effective internal control system has been maintained over financial accounting and reporting.

MAS Sections

The standards are divided into 13 sections and 57 subsections. The primary sections are:

MAS SECTION	TITLE	MAS SECTION	TITLE
1.00	Compliance Responsibility	8.00	Deposits and Bank Accounts
2.00	Accounting System	9.00	Reconciliations
3.00	General Policies & Procedures	10.00	Outstanding Checks
4.00	Change Funds	11.00	Bonds
5.00	Cash Receipts	12.00	Reporting
6.00	Disbursement Policies	13.00	External Review by Auditors
7.00	Payments Disbursed		

The sections containing the highest number of exceptions are:

- Reconciliations (125 exceptions)
- Payments Disbursed (36 exceptions)
- Outstanding Checks (19 exceptions)
- Bonds (14 exceptions)
- Disbursement Policies (13 exceptions)
- Change Funds (13 exceptions)

Methodology for Counting Exceptions

This year, our methodology for displaying exceptions includes the number of individual exceptions. In previous reports, we displayed the number of MAS subsections that contained exceptions. Reporting individual exceptions typically results in a higher exception rate, but provides more detail. The table below shows total exceptions by courts reviewed this year using both methodologies.

COURT	<u>COLUMN A</u>	<u>COLUMN B</u>
	# of subsections that contain one or more exceptions (Out of 57 total subsections)	# of individual exceptions across all subsections (The # of exceptions is not limited by subsections)
Hassayampa	12	48
North Valley	9	60
Manistee	8	55
West Mesa	8	15
Lake Pleasant	7	39
East Mesa	7	11
North Mesa	5	5
Ironwood Justice	5	13
Ironwood Municipal	3	5
Total	64	251

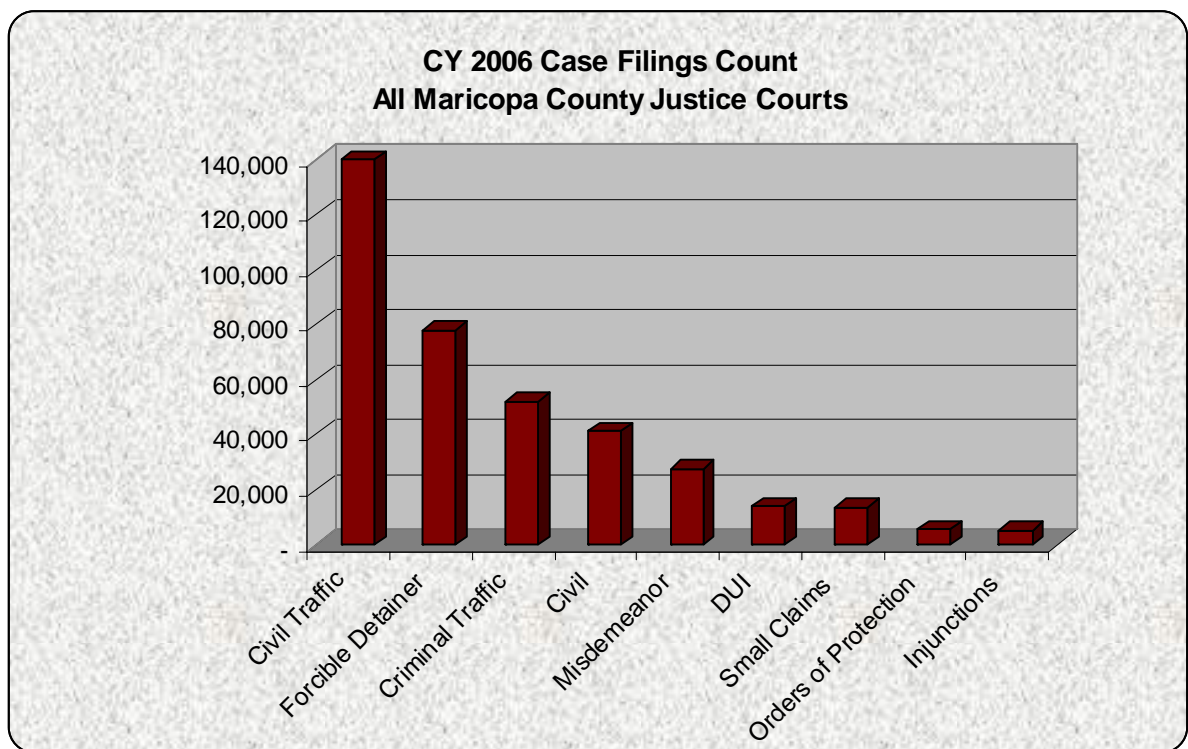
Introduction

Background

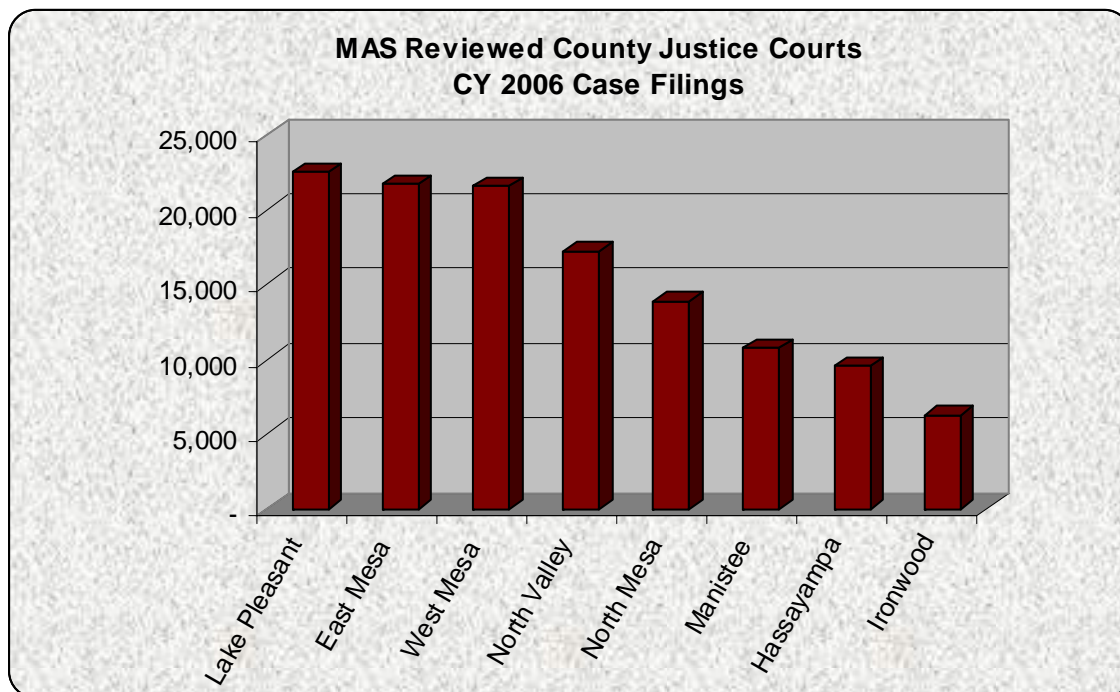
The Maricopa County Justice Courts, part of the Trial Courts system, include 23 Justice Courts at 11 physical locations. State law defines the Justice Court jurisdictions and limits the types of cases they hear. The Justice of the Peace, within minimum and maximum penalties set by statute, determines sentencing. Justices of the Peace are elected from their respective districts and serve four-year terms.

The 23 Justice Courts handle criminal traffic, misdemeanor, and a variety of civil cases not in excess of \$10,000. Most cities and towns operate their own municipal courts that handle some of the same types of cases, including civil traffic and misdemeanors.

Over 3.6 million people reside in Maricopa County. The majority of case filings in Maricopa County in calendar year (CY) 2006 were for civil traffic (37%), forcible detainer (20%), criminal traffic (14%), and civil cases (11%), as depicted below:



Out of the courts reviewed, Lake Pleasant, East Mesa, and West Mesa had the highest number of CY 2006 case filings, as shown on the following page.



Scope—Mandated Review

The MAS review is an agreed-upon procedures engagement in which an independent accountant performs standard audit procedures set forth by the Supreme Court of Arizona, Administrative Office of the Courts (AOC). The sufficiency of these procedures is the responsibility of the AOC. Consequently, we make no representation regarding the sufficiency of the procedures performed. We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The MAS were developed to standardize court accounting practices and procedures, and to assist judges, clerks, and court personnel in keeping the financial operations of their court in compliance with statutes and Generally Accepted Accounting Principles. Compliance with these standards improves accountability and helps ensure financial transactions are processed and recorded accurately and timely.

Review Schedule

All Arizona courts are required to have an independent MAS review every three years. During an MAS review, 58 separate tests are applied to a court's financial accounting and reporting systems. Internal Audit is typically on-site for several days at each court for observation and testing. In addition to the independent review, Justice Court Services also performs annual internal reviews for each of the courts. The Justice Courts reviewed this year, the annual caseloads, and AOC-mandated sample sizes for our testing are shown on the following page:

COURT	TRAFFIC	CRIMINAL	CIVIL	TOTAL CASES	SAMPLE SIZE
East Mesa	10,837	2,686	8,171	21,694	25
Hassayampa	4,671	1,274	3,611	9,556	20
Ironwood Justice	5,861	275	182	6,318	20
Ironwood Municipal	692	46	N/A	738	10
Lake Pleasant	13,016	5,121	4,380	22,517	25
Manistee	1,700	531	8,549	10,780	25
North Mesa	6,362	3,532	4,006	13,900	25
North Valley	9,114	1,526	6,573	17,213	25
West Mesa	12,275	2,658	6,662	21,595	25

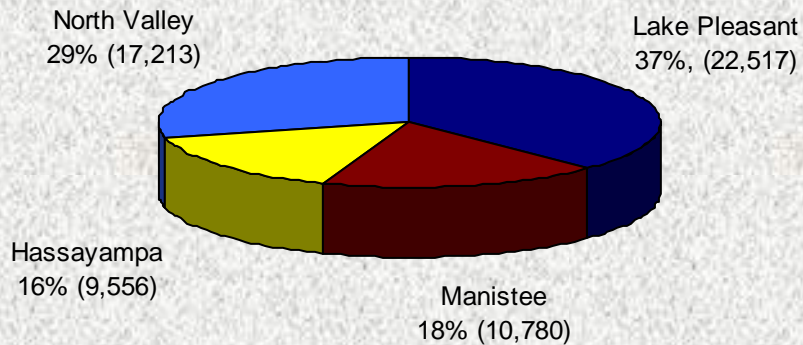
During the next two fiscal years (FY), we will review the Justice Courts listed below.

FY 2008	FY 2009
Agua Fria (Tolleson)	Dreamy Draw (Northeast Phoenix)
Arcadia Biltmore (East Phoenix #2)	Kyrene (Tempe West)
Downtown (East Phoenix #1)	McDowell Mountain (Scottsdale)
Encanto (Central Phoenix)	Moon Valley (Northwest Phoenix)
Estrella Mountain (Buckeye)	San Marcos (Chandler)
Maryvale (Maryvale)	San Tan (South Mesa/Gilbert)
South Mountain (South Phoenix)	University Lakes (Tempe East)
West McDowell (West Phoenix)	

Northwest Regional Court Center Transition

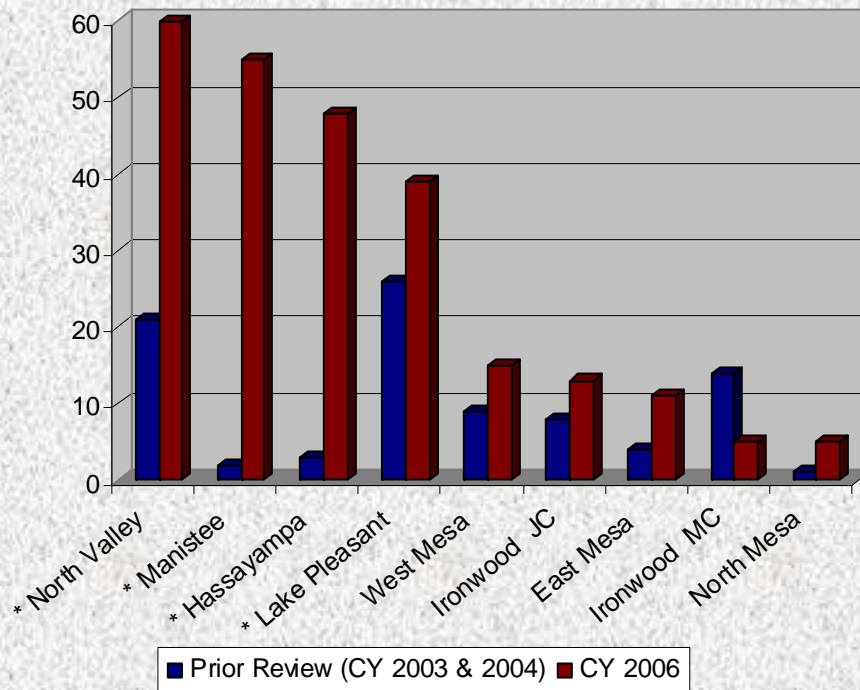
In April 2006, four courts (Hassayampa, Lake Pleasant, Manistee, and North Valley) were combined into one regional location called the Northwest Regional Court Center. In calendar year 2006, case filings totaled 60,066. The breakdown by court is shown on the following page.

Northwest Regional Court Total Case Filings by Court CY 2006



There was a large increase in the number of exceptions identified at the Northwest Regional Court Center, compared to the prior MAS review, as shown below. Exceptions for both periods were tabulated using the individual exception methodology described on page two.

Total Number of Exceptions



* Northwest Regional Court Center

Prior to establishing the Northwest Regional Court Center, each court had separate Treasurer and trust accounts. Treasurer accounts are used primarily for fines and fees and trust accounts are used primarily for bonds and restitution. In March 2006, Justice Court Services approved consolidating the four courts' Treasurer accounts into one and the courts began making deposits into the same account. However, the decision was reversed in May 2006 and the courts began using separate Treasurer accounts.

During our testing, we found that numerous deposits were made into the wrong court's Treasurer account. We also found that deposits for the trust accounts were erroneously deposited into the Treasurer accounts, and vice versa. Additionally, efforts to separate credit card receipts by court resulted in transfers to the wrong account. Further complicating the issue, the four courts did not consistently batch out credit card transactions on a daily basis. Below is a time line of these and related events:

Northwest Regional Court Center Time Line

- March 2006 Two courts begin using the same Treasurer bank account for deposits and credit card transactions
- April 2006 Four courts move into the Northwest Regional Court Center
- April 2006 All four courts are using one Treasurer bank account
- April/May 2006 Courts do not consistently batch credit card transactions daily
- May 2006 Courts begin using separate Treasurer bank accounts; however, deposits are made to both the combined account and the individual court accounts
- May 2006 New accounts are setup with Maricopa County's new bank. As of March 2007, the old accounts are still not closed, and each court has four open accounts.
- May/June 2006 Two courts run out of deposit slips and begin using deposit slips of another court, inadvertently depositing funds into the wrong account
- June 2006 Lake Pleasant is the only court with deposits and credit card transactions going to its own court bank account
- September 2006 Efforts to segregate credit card deposits by court results in transfers to the wrong accounts
- December 2006 The courts reconcile their accounts. Checks are written to the individual court accounts to segregate funds and reverse incorrect transactions.

Issue 1 Reconciliations and Open Items

Summary

We noted that while all of the courts tested had issues relating to reconciliations, outstanding checks, and bonds, nearly 90 percent of the 158 exceptions occurred at the Northwest Regional Court Center. The most common exception was that monthly bank statements were not reconciled within the prescribed 30 day timeframe. Additionally, reconciliations were not properly reviewed and/or documented. Stop payments were not placed on outstanding checks in accordance with policy and bond forfeitures were not sent to the Treasurer in a timely manner.

Background

MAS Sections 9.00, 10.00, and 11.00 refer to reconciliations, outstanding checks, and bonds, respectively, as discussed below:

- The courts are required to reconcile and balance all monies received after each shift at least daily and retain documentation of the reconciliation. Additionally, the courts are required to reconcile and balance all court accounting records at least monthly to verify that all receipts and disbursements are accounted for properly. (MAS Section 9.00)
- At least monthly, the courts are required to review all checks outstanding for more than 6 months and place a stop payment, if necessary. (MAS Section 10.00)
- Open items consist of bonds not returned to the bond poster, due to incomplete or invalid information in the case file. The courts should make every effort to return the monies; however, if the monies are outstanding for two years they should be escheated to the state. Bond forfeitures should be remitted to the Treasurer on the next working day. (MAS Section 11.00)

Results

We identified 158 exceptions related to reconciliations, outstanding checks, and/or bonds. Of these, 139 occurred at the Northwest Regional Court Center. The most common exceptions are listed below:

- Reconciliations were not performed within the prescribed 30 day timeframe (54 exceptions)
- Reconciliations were not properly reviewed and/or documented (48 exceptions)
- Stop-payments on checks were not placed within the prescribed time period (19 exceptions)
- Bond forfeitures were not sent to the Treasurer within the prescribed period of time (12 exceptions)

Issue 2 Cash Disbursements

Summary

We noted that while all nine courts tested had exceptions relating to cash disbursements, over 70 percent of the 49 exceptions occurred at the Northwest Regional Court Center. The most common exception was that inaccurate or incomplete data appeared in the disbursement journal.

Background

MAS Sections 6.00 and 7.00 refer to disbursement policies and payments disbursed. The types of disbursements made by the court include payments of restitution to victims, refunds of exonerated bonds and overpayments, and other court-ordered disbursements. MAS Sections 6.00 and 7.00 contain specific procedures that must be followed before and after disbursements are made.

Results

We identified 49 exceptions related to cash disbursements. The most common are listed below:

- Checks appeared in the disbursement journal with blank payee and incorrect names (20 exceptions). According to the courts, many of these exceptions were Integrated Court Information System issues, which are outside the scope of these agreed-upon procedures.
- Checks were disbursed without proper authorization and/or documentation (11 exceptions)
- Bond and restitution disbursements were not disbursed within the prescribed period of time (8 exceptions)
- Checks contained the signatures of unauthorized check signers (6 exceptions)